



# Treasury Legislative Update

A Summary of Recently Enacted Legislation Affecting the Michigan Department of Treasury

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## From the Editor....

This edition of the Treasury Legislative Update includes information about the recently-approved income tax reduction package.

Thanks to all Treasury employees who provided input as these bills moved through the Legislature.

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## INCOME TAX ACT

### P.A. 1 (Enrolled HB 4035; Van Woerkom) Effective 2/25/99

**SUMMARY:** P.A. 1 amends Section 51 of the Income Tax Act of 1967 to ensure that school districts, which currently receive 23 percent of the state's gross income tax revenues, are held harmless during and after the full phase-in of the income tax rate reduction. The act includes a formula for calculating the percentage of gross income tax revenues to be earmarked for schools, as follows:

1.012%	% of gross collections
income tax rate	= deposited in SAF

The formula results in 23.5% of gross income tax revenues being deposited in the School Aid Fund in CY 2000; 24.1% in CY 2001; 24.7% in CY 2002; 25.3% in CY

2003; and 25.9% in CY 2004 and thereafter.

**BACKGROUND:** In his 1998 State of the State message, Governor Engler proposed a five-year, 0.5% reduction in the Michigan income tax. This package embodies the concepts included in the Governor's original proposal.

As an across-the-board rate cut, the package will benefit every person earning an income in Michigan, regardless of economic status. In addition, reducing the income tax rate ensures that taxpayers' savings can continue to grow as personal income keeps increasing over time.

During the debate over the cut, concerns were raised about whether or not the School Aid Fund would be protected from possible revenue losses resulting from a reduction in the income tax. P.A. 1 includes hold harmless provisions that add an extra measure of statutory protection for Michigan schools.

**INCOME TAX ACT**  
**P.A. 2** (Enrolled HB 4034;  
Richardville)  
Effective 2/25/99

SUMMARY: P.A. 2 adds Section 51b to the Income Tax Act of 1967 to reduce the Michigan income tax rate from 4.4% to 4.3%, beginning January 1, 2000.

BACKGROUND: In his 1998 State of the State message, Governor Engler proposed a five-year, 0.5% reduction in the Michigan income tax. This package embodies the concepts included in the Governor's original proposal.

As an across-the-board rate cut, the package will benefit every person earning an income in Michigan, regardless of economic status. In addition, reducing the income tax rate ensures that taxpayers' savings can continue to grow as personal income keeps increasing over time.

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**INCOME TAX ACT**  
**P.A. 3** (Enrolled HB 4033;  
Julian)  
Effective 2/25/99

SUMMARY: P.A. 3 adds Section 51c to the Income Tax Act of 1967 to reduce the Michigan income tax rate from 4.3% to 4.2%, beginning January 1, 2001.

BACKGROUND: In his 1998 State of the State message, Governor Engler proposed a five-year, 0.5% reduction in the Michigan income tax. This package embodies the concepts included in the Governor's original proposal.

As an across-the-board rate cut, the package will benefit every person earning an income in Michigan, regardless of economic status. In addition, reducing the income tax rate ensures that taxpayers' savings can continue to grow as personal income keeps increasing over time.

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**INCOME TAX ACT**  
**P.A. 4** (Enrolled SB 2;  
Hammerstrom)  
Effective 1/1/03

SUMMARY: P.A. 4 adds Section 51d to the Income Tax Act of 1967 to reduce the Michigan income tax rate from 4.1% to 4.0%, beginning January 1, 2003.

BACKGROUND: In his 1998 State of the State message, Governor Engler proposed a five-year, 0.5% reduction in the Michigan income tax. This package embodies the concepts included in the Governor's original proposal.

As an across-the-board rate cut, the package will benefit every person earning an income in Michigan, regardless of economic status. In addition, reducing the income tax rate ensures that taxpayers' savings can continue to grow as personal income keeps increasing over time.

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**INCOME TAX ACT**  
**P.A. 5** (Enrolled SB 5; Bullard)  
Effective 1/1/04

SUMMARY: P.A. 5 adds Section 51f to the Income Tax Act of 1967 to reduce the income tax rate from 4.0% to 3.9%, beginning January 1, 2004.

BACKGROUND: In his 1998 State of the State message, Governor Engler proposed a five-year, 0.5% reduction in the Michigan income tax. This package embodies the concepts included in the Governor's original proposal.

As an across-the-board rate cut, the package will benefit every person earning an income in Michigan, regardless of economic status. In addition, reducing the income tax rate ensures that taxpayers' savings can continue to grow as personal income keeps increasing over time.

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**INCOME TAX ACT**  
**P.A. 6** (Enrolled SB 1;  
Goschka)  
Effective 2/25/99

SUMMARY: P.A. 6 amends Section 51 of the Income Tax Act of 1967 to reduce the Michigan income tax rate from 4.2% to 4.1%, beginning January 1, 2002. This bill also contains language earmarking a certain percentage of income tax revenues for schools (identical to P.A. 1).

BACKGROUND: In his 1998 State of the State message, Governor Engler proposed a five-year, 0.5% reduction in the Michigan income tax. This package embodies the concepts included in the Governor's original proposal.

As an across-the-board rate cut, the package will benefit every person earning an income in Michigan, regardless of economic status. In addition, reducing the income tax rate ensures that taxpayers' savings

can continue to grow as personal income keeps increasing over time.

During the debate over the cut, concerns were raised about

whether or not the School Aid Fund would be protected from possible revenue losses resulting from a reduction in the income tax. P.A. 6, like P.A. 1, includes hold

harmless provisions that add an extra measure of statutory protection for Michigan schools.